

Recent macroeconomic and financial developments

The Liberian economy recovered in 2021 from COVID-19. GDP is estimated to have recovered to grow by 3.3% from a decline of 3.0% in 2020, largely driven by growth in mining and construction on the supply side and public spending on the demand side, as the economy reopened. Inflation eased from 17% in 2020 to 8.0% in 2021 on a steady decline in food prices. The fiscal deficit is estimated to have narrowed to 3.3% of GDP in 2021 from 3.6% in 2020 due to increased revenue collection. As of October 2021, public debt had increased to 54.7% of GDP from 47.9% in 2020, reflecting increased borrowing. The current account deficit widened to 17.4% of GDP in 2021 from 16.1% in 2020 because of a widening trade deficit, as imports increased.

International reserves stood at \$716 million in December 2021 (4.4 months of import cover), mainly because of the SDR 247.7 million allocation (48% of gross reserves) used to strengthen the international reserves position and help finance the vaccination program and public investment. The exchange rate appreciated 9.8% year on year from LRD162.34/\$ in December 2020 to LRD146.27/\$ in December 2021. The financial sector remained sound with a capital-adequacy ratio of 32.9% in June 2021 compared with 35.1% in June 2020, although the NPL ratio remained high at 22.5%. Extreme poverty also remained high, at 43.0% in 2021, marking just a 1.0% decline from 2020. Unemployment was estimated at 3.3% in 2020.

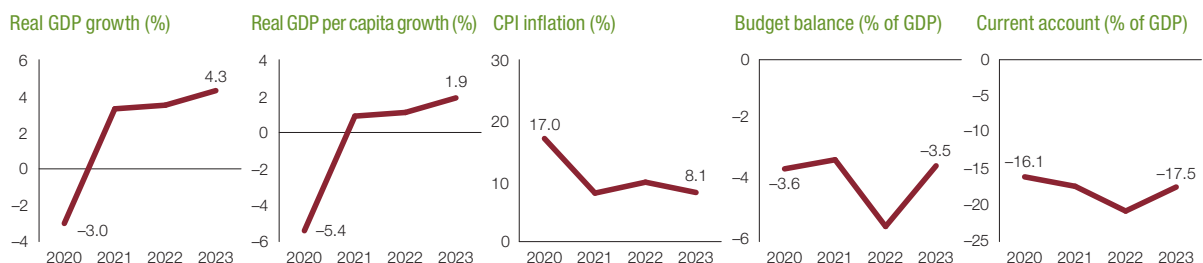
Outlook and risks

The outlook is positive, with risks tilted to the downside due to the Russia–Ukraine conflict. Growth is projected at 3.5% in 2022 and 4.3% in 2023, driven by expansion in mining, services, manufacturing, and agriculture. Inflation is projected to surge to 9.8% in 2022 and 8.1% in 2023, driven by food and energy inflation. The fiscal deficit is forecast to widen to 5.5% in 2022 and to 3.5% in 2023 due to lower grants and higher subsidies. The current account deficit is forecast to widen to 20.8% of GDP in 2022 and to 17.5% in 2023 due to a higher import bill, as fuel and food constitute about 50% of total imports. Downside risks include a prolonged pandemic and slow vaccine rollout; a prolonged Russia–Ukraine conflict; deterioration of the terms of trade on the main exports, especially gold and rubber; and non-adherence to prudent macroeconomic policies.

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Climate change issues and policy options

Liberia is 101 on the 2021 GCRI. It is faced with high climate change risks including cyclones, floods, and a rising sea level because of its location in a tropical rain forest climate belt. Projections on climate change point to average annual rainfall 3.0% greater by 2050, annual temperatures 2.6°C higher by the 2060s, and a rising sea level of 0.56 meters by 2100. These impacts would lead to massive biodiversity loss, widening inequalities, and rising food insecurity and hunger. The country's Pro-poor Agenda for Prosperity and Development (2018–23) has integrated green growth, environmental adaptation, and climate change. The 2017 National Policy and Response Strategy on Climate Change guides implementation of mitigation actions. Liberia's GHG emissions were estimated at 3.5 Mt in 2014. In 2021, the country submitted a revised NDC report demonstrating its commitment to tackling climate change challenges. An estimated \$490 million would be needed to finance the country's mitigation and adaptation activities and actions in 2021–30. The GCF in 2021 approved \$10 million for climate information systems to enhance population and infrastructure resilience to climate change. Liberia is on track to meeting SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Liberia's fiscal year, which runs from July 1 to June 30.